



Badab-e Surt Spring, Mazandaran province, Iran

Market Overview _____ **2**

The Tehran stock exchange (TSE) reacted significantly to the recent historic agreement in Geneva over Iran's nuclear program and witnessed good growth in November. Furthermore, the market's average P/E ratio exceeded 8. With records being set of more than USD200 million daily trade volumes, there is ample evidence of positive sentiment which is encouraging inflows of fresh money into the market.

Country Overview _____ **5**

Iran's foreign minister tour to Arab countries and President Rouhani's first 100 days in office will be discussed in this section.

Economy _____ **7**

An overview of Iran's crude oil production and exports, a new equilibrium for the exchange rate, self-sufficiency in agriculture, and the shifting of inflation from products to services will be covered in this section.

The Tehran stock exchange (TSE) markedly reacted to the recent historic agreement in Geneva over Iran's nuclear program and marked a growth of 13.6% in November alone. Furthermore, the market's average P/E ratio exceeded 8 towards the end of November, which is around 30% higher than its historic average. Due to the prevalence of negative sentiment towards parallel investment classes, the stock market was awash with continuous inflows of fresh liquidity over the course of the month. Meanwhile, stock prices showed continuous growth leaving no room for proper price corrections. Another encouraging factor in mid November was the withdrawal of the debate surrounding the increase in bank's interest rates on deposits. This eliminated the possibility of higher no-risk earnings and encouraged investors to inject new monies into the stock market.

The most positive response to the Geneva agreement was observed in the automotive, banking and petrochemical sectors. However, stocks that are highly dependent on the exchange rate (such as basic metals) experienced a downward trend mostly due to the possibility of further appreciation of the Rial. Nonetheless, with records being set of more than USD200 million daily trade volume (which is 5 times higher than the previous year's average and 10 times higher than the capital market's long-term average), there is ample evidence of positive sentiment which is encouraging inflows of fresh money into the market. However, it could also be argued that the continuation of this bullish sentiment and unjustified price increases in stocks will have an effect upon market sentiment in the coming months.

We shall now examine in greater detail several individual sectors of the market:

Petrochemical and Automotive

According to the agreement between Iran and the P5+1 group, industries that benefited most from the suspension of sanctions would be the oil, petrochemical, automotive, insurance and transport industries. In the capital market, the influence of this agreement is potentially of paramount importance, especially for the petrochemical and automotive industries. In petrochemical companies, a suspension of sanctions will ease the purchase of products and reduce transport and insurance difficulties. Due to the international sanctions

that have been imposed, Iranian petrochemical companies had to incur insurance and transport costs twice as high as other regional competitors. Therefore, the suspension of these sanctions will rejuvenate the earnings potential of this sector.

The automotive sector is another one that will benefit from the easing of sanctions. As such, there is a lot of optimism surrounding the stocks of this sector. However, a financial analysis of automotive companies indicates that any meaningful improvement in the sector requires time and financial contributions from either the banks or shareholders. Almost all of the companies in this sector suffer from an absence of liquidity and run a cumulative deficit equal to their capital. Despite this, given the news surrounding the nuclear agreement, the automotive sector was amongst the best performing sectors in November. The stock price of Saipa group, the biggest automobile manufacturer in the Middle East, saw an increase of 21%. The indices of the automotive and petrochemical industries witnessed growth of 25% and 14% respectively.

Base Metals

Iran's cycle of economic activity has been negatively affected by the exchange rate fluctuations over the past 24 months. The Rial value experienced a depreciation of 100% over a year and regained 20% of its value over the past 6 months. During the depreciation phase, sellers started hoarding metals with the hope of earning higher profits and now, with the trend reversing, buyers have suspended their purchases. A clear example of such inactivity could be observed in the trend of trades on the Iran Mercantile Exchange (IME) in November. Even a 15% reduction in the price of steel over the past four months has not motivated investors to trade this metal. As a result, the stock price of the largest steel producer in the country (Khouzestan Steel Company) dropped by 13.1% in November despite the recent boom in the stock market. Copper cathode has had a similar experience. Despite the intense competition surrounding purchasing copper cathode in previous months, only half the copper on offer was sold even after a 5% reduction in its price. This resulted in a reduction of 1% in the stock price of NICIC, the largest copper producer in the Middle East. Aluminum producers did not see better days in November either. Aluminum is selling at a price 20%

lower in comparison to the same period last year. The stock price of Iralco, Iran's largest aluminum producer fell by 3% in November. Overall, it can be concluded that the stock market is expecting a probable reduction in the profitability of companies in this sector mainly due to appreciation of Rial. Due to such a reduction in demand, the index of basic metals dropped by 3.7% and became the worst performing sector in November.

New Developments in the stock market

The TSE witnessed two major developments in November; the increase in the working hours of the stock market and the re-launch of futures trading. An increase of 30 minutes in the daily trade session of the market (now up to 3.30 hours) is an important development in moving towards international standards. Although 3.5 hours for daily trades is still not long compared to some neighboring stock markets (such as Turkey), the head of the Securities and Exchange Organization has hinted at the possibility of further increases, amounting to up to 5 hours of trading time every day.

At the same time, the capital market re-launched future trading for seven major companies once again in mid November, after its initial unsuccessful attempt three years ago. This development was initially treated with an element of suspicion by TSE investors. Although this is considered a movement towards introducing more and more instruments to the stock market, the short-term success of these products is uncertain as Iranian investors are not familiar with them.

Economic statistics influencing the stock market

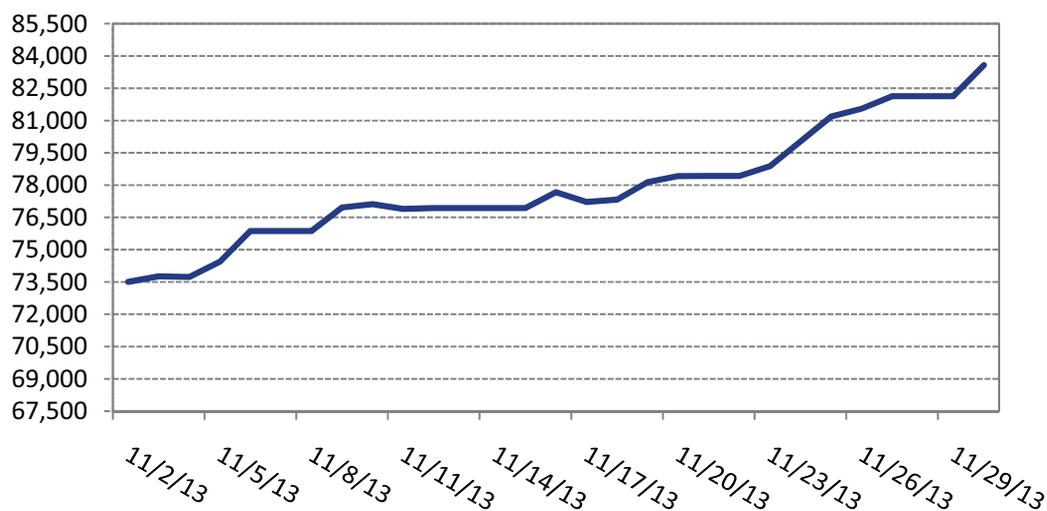
The announcement of the monthly inflation rate of 1.2% in November, the lowest rate in the past 15 months, has revived hopes of the economy getting back on track. Analysis of this important index shows that after the presidential election, consumer prices have increased by 5.5% between June and October. The persistence of this trend potentially heralds a marked decline in the inflation rate by next summer. Inflation is expected to decrease from its current annual rate of 36% to 20%. Perhaps such a deceleration in the growth of consumer prices is the reason why the debate around increasing interest rates of bank deposits

ceased and was officially refuted by the economic minister. In any case, this is a positive development for the economy and investment markets.

At the same time, the publication of non-oil export and import statistics in the first 7 months of 1392 indicates that the non-oil trade deficit is reaching USD3 billion, its lowest amount in 20 years. In addition, there is also hope that, in the absence of political turmoil, the exchange rate will remain stable. As such, the concurrence of exchange rate stability and inflation reduction can change the market trend of the past 15 months to a more stable and calm climate.

Overall, November was a month with large increases in stock prices, and was marked by an increase of 13.6% for TSE's All-Share index.

Performance of TSE All-Share Index (November)



Market Statistics	
Average P/E	7.8
Trade Volume (\$ Billion)	3.3
Trade Value Monthly Change (%)	- 9
Market Cap (\$ Billion)	165

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Tamin Petrochemical Co.	307	9
2	Persian Gulf Petrochemical Industry	167	5
3	Bandar Abbas Oil Refining Co.	149	5
4	Pasargad Bank	127	4
5	Mellat Bank	118	4

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	16,906	10
2	Bandar Abbas Oil Refining Co.	7,708	5
3	Iran Telecommunications Co.	6,892	4
4	Tamin Petrochemical Co.	6,737	4
5	Isfahan Mobarakeh Steel Co.	6,264	4

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 24790, as at 30 November 2013. Due to Central Bank's revision on the official exchange rate of the Rial, their equivalent value in USD has reduced dramatically.

Iran's Foreign Minister goes on a tour to Arab countries:

The Iranian Foreign Minister, Mohammad Javad Zarif carried out his first official tour of the Persian Gulf littoral states in early December, which according to the Foreign Ministry, signified Iran's willingness to improve regional relationships. After the initial nuclear agreement which was reached by Iran and the P5+1 in November, Mr. Zarif's trip to Kuwait, Oman, Qatar and the United Arab Emirates (UAE) was aimed at assuring neighboring governments that the deal will serve the mutual interests of regional states and increase security. The Iranian Foreign Minister also stated that the Iranian government's goal was to strengthen ties and bring about stability in the region.

Mr. Zarif's first stop was Kuwait where he attended the second meeting of the Iran - Kuwait High Economic Commission after a seven year hiatus and met with high ranking officials in order to discuss bilateral ties as well as regional developments. After his short trip to Kuwait, the Iranian Foreign Minister headed to Oman, Qatar, and UAE.

During his trip to Oman, Mr. Zarif thanked the Sultanate for its positive role in facilitating the negotiation process between Iran and the West. Mr. Zarif also delivered a message from President Rouhani to Sultan Qaboos of Oman who was Mr. Rouhani's first foreign guest after his presidency commenced. Mr. Zarif, left Oman for Qatar, where he met with his counterpart Khalid bin Mohammad al-Attiyah.

On his trip to the UAE, Mr. Zarif held talks with the President, Sheik Khalifa bin Zayed Al Nahyan in the Emirati city of Al Ain. During their meeting, the Emirati leader offered his support for the agreement between Iran and the West. The President of the UAE also accepted an invitation to visit Iran on a date which will be announced later. The Iranian Foreign Minister also met with the ruler of Dubai and the UAE's Prime Minister, Sheikh Mohammed bin Rashid Al Maktoum. UAE was the first country in the region to welcome the agreement which was reached between Iran and the P5+1, and Mr. Zarif mentioned Iran's appreciation of the UAE's stance

on this matter. Mr. Zarif also met with a number of Iranian nationals residing in the UAE, mostly in Dubai, whose numbers surpass 400,000.

The week prior to Mr. Zarif's trip, the UAE's Foreign Minister, Abdullah bin Zayed had come to Iran and met with his counterpart as well as President Rouhani. The two countries enjoy billions of dollars in annual trade, despite significant reductions due to sanctions; the two foreign ministers have stated that they are ready for further economic collaboration. That being said, the UAE and Iran have in recent times faced difficulties as the UAE has publically pressed its claims on three Iranian islands near the strategic Strait of Hormuz. Differences of position have also been evident in regards to the Syrian conflict where the UAE, along with Saudi Arabia and Qatar, have supported opposition forces fighting the Syrian President Bashar Assad. Iran has said that providing that there are no preconditions, it would attend the Geneva II Middle East peace conference, which is due take place in January 2014, if invited.

With the exception of Israel, countries in the region welcomed the recent nuclear deal between Iran and the world powers. Even though Saudi Arabian figures mentioned some cautious remarks, this step can be seen as a continuation of President Rouhani's plan to improve relations with neighboring countries, especially Persian Gulf States. According to analysts, Mr. Zarif's recent visit is vital in the attempting to improve Iran's relations with Arab countries. Through this strategy, Iran is attempting to demonstrate to Arab countries that the new Iranian government seeks regional stability and growth, and that it does not present a threat.

President Rouhani's 100 days in office

President Rouhani reported on his first 100 days in office as promised during his election campaign. Appearing on national TV, the Iranian President described the conditions under which he assumed responsibility as President and the new government's efforts in trying to solve the problems inherited from the previous administration.

The majority of topics discussed during the televised interview-like address were regarding economic matters; however, the President also discussed issues relating to foreign relations, health-care, social, and cultural matters. Mr. Rouhani started by saying that his government is committed to reporting the activities of the executive branch to the people on a regular basis, and that he had chosen 100 days as the period after which the initial report would be given. President Rouhani further described the condition of the country's economy and issues ranging from a low treasury balance, inflation, the effect of foreign sanctions, and the previous governments debt which his administration had inherited. He further explained that upon assuming responsibility, the country was in a state of stagflation with insufficient income and funds to pay government employees. He explained how the previous government's efforts in creating an affordable housing scheme, called the Mehr Housing Project, exerted an immense inflationary burden on the economy. Mr. Rouhani also elaborated that the direct cash hand out scheme which was adopted during President Ahmadinejad's term to compensate the poor for subsidies removals on energy and essential products would have to be amended.

Mr. Rouhani also discussed the effects of international sanctions on the Iranian economy and the mismanagement of the previous government which had amplified those effects. He stated that regarding the procurement of medical supplies, his administration had moved quickly to resolve issues relating to the availability of special medications and the price hikes which had followed due to complications resulting from the Western sanctions. The President further explained that with regards to agriculture, his administration had created special funds and facilities which would be available to farmers in order to increase the country's wheat and other agricultural production, as well as reducing reliance on imports.

Mr. Rouhani then went on to talk about his policies regarding foreign policy, Iran's agreement with the P5+1, and international sanctions. Mr. Rouhani elaborated that from the very start, foreign policy has been one of the highest priorities

of the new government. He stated that the government believes in positive interaction with the world and hopes to solve the existing problems through prudence and dialogue. The President explained that within the first 100 days of the government in office, there have already been many accomplishments in the sphere of foreign policy. Mr. Rouhani started by mentioning that while attending the Shanghai Cooperation Organisation (SCO) in Bishkek, there were numerous positive discussions with the leaders of Russia and China which are member states of the SCO and the P5+1. He also stated that his attendance at the UN General Assembly, and the meetings held while in New York were also constructive.

Regarding the agreement which was reached between Iran and the P5+1 to solve issues relating to Iran's nuclear programme, the President stated that the country's rights have been recognized while the two sides will work on confidence building measures. He further described that any final agreement will include uranium enrichment in Iran, as the country will need nuclear fuel for its planned nuclear power plants. Mr. Rouhani mentioned that the goal of the government is to eliminate all sanctions which have been placed on Iran and move towards better relations with all countries, while securing Iran's nuclear rights as enshrined in the nuclear Non-Proliferation Treaty.

One of the other issues which Mr. Rouhani had promised during his campaigning days if elected President, was the issuance of a comprehensive Charter of Rights under which every Iranian citizen would be guaranteed citizenship rights regardless of ethnic, linguistic and other differences. The draft of this charter was made available publically on the night Mr. Rouhani gave his televised address so that legal, social, political, cultural experts as well as society as a whole could comment on it before the final version is published. The President also stated that the government will be less directly involved in cultural matters and will allow cultural syndicates to have a higher role in regulatory matters.

Overview of Iran crude oil production and export:

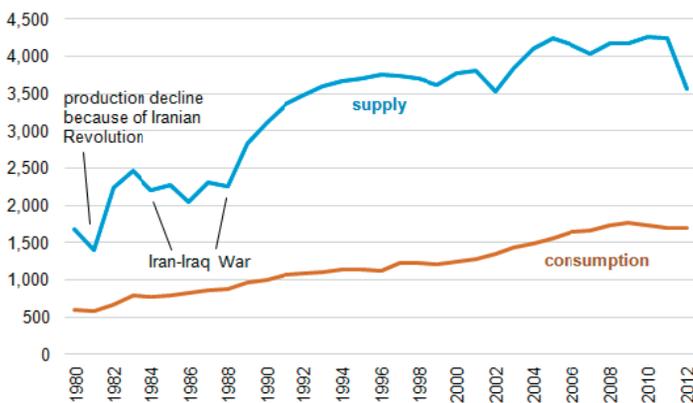
Oil has been the main driver of economic growth in Iran. Between 1380 and 1384, the production of crude oil increased from 3.5 to 4.1 million barrels per day (bpd). With the imposition of sanctions on Iran’s energy sector, Iran’s total crude oil production and exports has further declined. According to data published by the Energy Information Administration (EIA), Iranian crude oil production was 2.8 million bpd in November 2013, down from an annual average of 3.7 million bpd in 2011 and 3 million bpd in 2012. Crude oil exports averaged at around 1.1 million bpd over the first nine months of 2013, down from 2.5 million bpd in 2011 and 1.5 million bpd in 2012.

on improving the economic situation. With the aim of stabilizing the country’s income in terms of foreign currency and strengthening the National Development Fund’s capacity to fund development projects, the government has as one priority the completion of oil & gas projects such as South Pars. The government has also redesigned contracts in order to increase their potential to attract capital and technology. To counter the effects of lost international sales and to try to neutralize the sanctions, the government has also formed marketing and policy making councils to secure Iran’s oil sales.

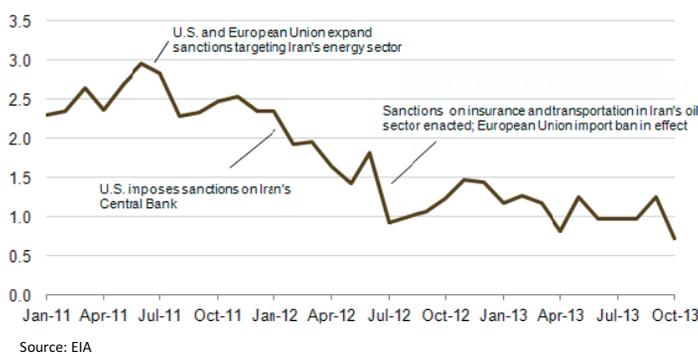
New Equilibrium for Exchange rate

International sanctions imposed on Iran had caused fluctuations in the local currency market as a shortage of foreign exchange took effect. Over the past two years, the weakening of the Rial had accelerated to a point where on February 1st, 2013 a dollar was selling at 39,600 Rials. However, the fluctuations stabilized to some extent after Rouhani won the presidential election in June 2013. In September, the country’s currency market reacted positively to Iranian president Hassan Rouhani’s visit to New York and his telephone conversation with his American counterpart. Reports indicated that the dollar was traded at below 30,000 rials on September 28, the day after Rouhani returned to Tehran, while only a week before that it was trading at 32,000 rials.

Iranian total supply and consumption of oil 1980-2012 (Thousand bpd)



Iranian crude oil exports (Jan 2011-Oct 2013) (Million bpd)



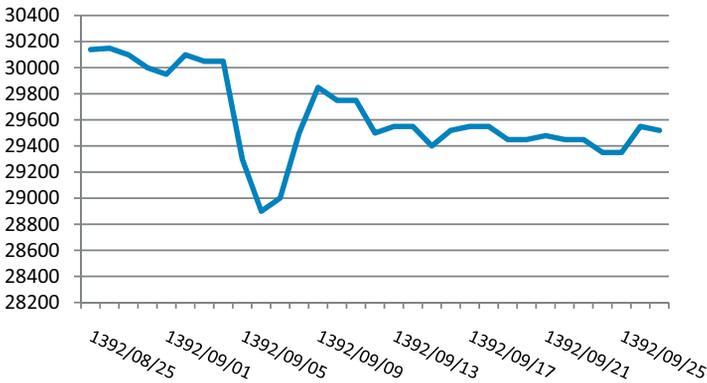
During November and following the agreement between Iran and the P5+1 group in Geneva, the value of the Rial appreciated once again to around 28,800 Rials on 3rd November. However, such a depreciation of the dollar did not last long and reversed in the following days. Since then, there has been a relative calmness in the foreign currency market and the Rial value has stabilized at around 29,500 Rials.

According to the Rouhani government’s report on the government’s economic performance in its first 100 days, the government seems adamant

In more recent events, the US expanded sanctions by placing more than a dozen companies and people onto a blacklist for trying to evade sanctions against Iran. Contrary to common expectations, this expansion of sanctions did not affect the exchange rate in the days following the

event. The foreign currency market seems stable and the exchange rate still stands at the same rate of around 29,500 Rials for every dollar in the free market.

Iranian Rial against US Dollar (November 2013)



Self-sufficiency in Agriculture:

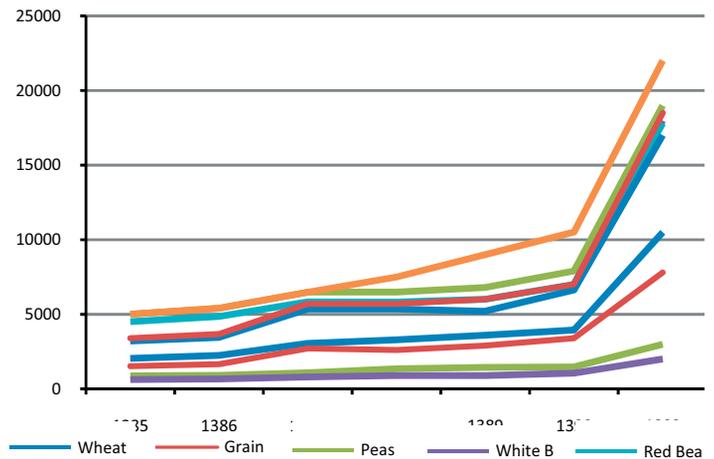
A major goal of post-revolution governments has been to achieve self-sufficiency, especially in the agricultural sector. However, an analysis of production, consumption and import volumes of agricultural products in recent years points to a different direction.

Between 2000 and 2005, government’s guaranteed purchases of wheat increased by an average of 1 million tons per year. As a result, imports of wheat decreased by the same annual rate up to a level where the country reached self-sufficiency. In this period, the government’s guaranteed purchases increased from 5.5 million tons in 2001 to 11.4 million tons in 2005. At the same time, imports of wheat decreased from 6.8 million tons in 2000 to 105,000 tons in 2006. However, that trend did not continue, and between 2005 and 2012 it reversed. In this period, the government’s guaranteed purchases decreased by 1 million tons per year while imports rose annually by 1 million tons. The government’s guaranteed purchases of wheat dropped from 11.4 million tons in 2005 to 2.2 million tons in 2012. It is estimated that wheat imports will reach 7.2 million tons in 2013.

However, Rouhani’s government is planning to

reverse this recent trend and focus on reaching self-sufficiency in the agricultural sector once again. To this end, the government has increased the guaranteed purchase volumes of agricultural products. For example, up until this point the government has purchased 4.7 million tons of wheat from farmers and has cleared the standing balance of 1400 billion Rials that the government owed wheat farmers. In addition, the government has increased its guaranteed purchase price of agricultural products for 1392-1393. By announcing its purchase prices before the harvesting season, the government hopes to display its determination to revive the agricultural sector and thereby motivate farmers.

Government guaranteed purchasing price of agricultural products (IRR)



Shifting of inflation from products to services

The Central Bank of Iran (CBI) published a report on the inflation rate in October. In its report, the CBI distinguished between four different figures for inflation. The monthly changes in the average price of goods and services in a family’s basket have risen by 1.2% in October, in comparison to September. The point-to-point inflation rate, which compares the Consumer Price Index (CPI) of a specific month in two consecutive years, has increased by 36.6% in October 1392 compared to October 1391. The average price change of goods and services in the first 7 months of 1392 has increased by 42% compared to the first 7 months of 1391. According to the CBI’s report, the average

price index in the 12 months leading up to October 1392 has increased by 40.4% compared to the 12 months leading to October 1391. This rate is estimated to reach 40% in November this year.

The CBI's report shows that the producers' price index is higher by 30.9% in October compared to the same month last year. The average producers' price index is also higher by 39.5% in the 12 months leading up to October 1392 compared to the 12 months leading up to October 1391.

Export of goods from Iran has also witnessed a negative inflation rate in the past couple of months. This has happened following the appreciation of the US dollar last year, when the average price index of export goods had gone through the roof. This was followed by a period of stability with minor fluctuations towards the end of 1391. However, as of June, this upward trend has reversed. Based on recent reports, the average price of export goods continued with its downward trend in October. The average price index of export goods dropped by 5% in September and showed a further reduction of 3.4% in October. These figures show a negative inflation rate in the export sector. Among the exported goods, mineral products had the highest decrease in their prices.

Detailed analyses by the Central Bank of Iran show that inflation in October followed a different trend compared to the previous months of 1392. Unlike the previous months, where inflation manifested through product prices, inflation in this month was witnessed in the services sector. More specifically, in October, services experienced an inflation rate of 4.1% while the monthly inflation rates for "products" and "housing, water, electricity, gas and other fuels" were 1.1% and 1% respectively.

About Turquoise

Turquoise is a boutique investment firm based in Iran. Turquoise creates financial products and offers financial services to select clients and investors who are interested in the Iranian market. Having a qualified and diverse management team with a wealth of international expertise enables Turquoise to benefit from coupling a network of global expertise with an enviable reputation for local knowledge, professionalism and integrity.

Turquoise publishes this electronic newsletter, *Iran Investment Monthly*, with the aim of keeping its recipients updated on the latest macroeconomic developments in Iran, providing an in-depth analysis of the Tehran Stock Exchange as well as introducing new financial products and private equity opportunities to potential investors.

Iran Investment Monthly is distributed exclusively amongst Iran analysts and potential investors who have worked closely or have been in contact with Turquoise Partners. Subscription to this newsletter is by referral only or through an online request sent to: info@turquoisepartners.com

Disclaimer

This material is for information purposes only and does not constitute an offer to sell, nor a solicitation of an offer to buy any specific shares.

The analysis provided by this publication is based on information that we consider reliable and every effort is made to ensure that the facts we publish are correct. However, we do not represent that all facts and figures are complete and accurate; therefore, we can not be held legally responsible for errors, omissions and inaccuracy.

This publication does not provide individually tailored investment advice and may not match the financial circumstances of some of its recipients. The securities discussed in this publication may not be suitable for all investors. The value of an investment can go down as well as up. Past performance is no guarantee of future success.

Copyright Notice

No part of this newsletter may be reproduced or transmitted in any form or by any means electronic, mechanical, photocopies, recording or by any information storage or retrieval system without prior written consent of Turquoise Partners.